



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: December 16, 2008
TO: Mayor and Councilmembers
FROM: Administration Division, Finance Department
SUBJECT: Update On General Fund Financial Status

RECOMMENDATION:

That Council hear a staff report on the financial status of the General Fund.

DISCUSSION:

Beginning late fiscal year 2008, General Fund revenues started showing the effects of what has now become a national and international economic crisis. By the end of fiscal year 2008, a total of \$3.1 million in reserves had been consumed to make up for revenue shortfalls caused by the economic downturn.

Although we adopted a balanced fiscal year 2009 budget five months ago, the General Fund is now facing an estimated \$5.5 million deficit by this fiscal year-end. In addition, staff preliminarily estimates the General Fund deficit for fiscal year 2010 at approximately \$9 million. Depending on how severely the economic situation impacts General Fund revenues over the next several months, both of these deficit projections could get worse. Given the unprecedented nature of this economic situation, it is nearly impossible to predict at this point how bad the situation will get.

The strategy for 2009 includes the use of budget reductions and one-time measures to avoid further use of General Fund reserves, which are now well below policy requirements. General Fund departments have already been directed to generate a total of \$3 million in expenditures savings. On average, departments routinely generate approximately \$2 million in savings each year. Therefore, in effect, they are being asked to generate an additional \$1 million of savings in the final 6 months of the year. In some cases, this will be accomplished by keeping positions vacant and trimming costs across all line-item accounts. In other cases, however, services to the public will be affected.

The balance of the total fiscal year 2009 \$5.5 million projected deficit will be closed through several one-time measures. These measures include (1) scaling back the capital program to only essential or committed projects; (2) drawing on excess reserves from both the Self-Insurance Fund and Streets Sweeping Fund; (3) reducing internal service fund charges to the General Fund by 3%; and (4) utilizing the \$700,000 General Fund appropriated contingency reserve included in the adopted budget as a hedge against potential State budget impacts.

Staff is just beginning to work on the strategy to close the projected \$9 million deficit for fiscal year 2010. However, with few one-time measures remaining, the goal will be to identify a combination of ongoing expenditure savings and revenue enhancement measures to re-balance the budget. Given that approximately 76% of the General Fund operating budget goes to pay salaries and benefits, any ongoing measures to reduce expenditures will have to include some adjustments to staffing and services.

The purpose of the staff report is to summarize the proposed strategy for fiscal year 2009, and to outline potential options for addressing the projected deficit for fiscal year 2010.

PREPARED BY: Robert Samario, Assistant Finance Director

SUBMITTED BY: Robert Peirson, Finance Director

APPROVED BY: City Administrator's Office